No. 05-608

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IN THE

Supreme Court of the United States

MEDIMMUNE, INC.,

Petitioner,

v.

GENENTECH, INC., *et al.*,

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION AS *AMICUS CURIAE* SUPPORTING RESPONDENTS

MELVIN C. GARNER
President
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
2001 Jefferson Davis Hwy.
Suite 203
Arlington, VA 22202
(703) 415-0780

EDWARD R. REINES
Counsel of Record
WEIL, GOTSHAL & MANGES LLP
201 Redwood Shores Pkwy.
Redwood Shores, CA 94065
(650) 802-3000

AMBER H. ROVNER
WEIL, GOTSHAL & MANGES LLP
8911 Capital of Texas Hwy.
Suite 1350
Austin, TX 78759
(512) 349-1930

Counsel for American Intellectual Property Law Association

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STATEMENT OF AMICUS INTEREST

The American Intellectual Property Law Association (AIPLA) has no interest in any party to this litigation or stake in the outcome of this case, other than its interest in seeking a correct and consistent interpretation of the law affecting intellectual property.[1] AIPLA is a voluntary bar association of over 16,000 members who work daily with patents, trademarks, copyrights, trade secrets, and the legal issues that

[1] In accordance with Supreme Court Rule 37.6, AIPLA states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than AIPLA or its counsel.

intellectual property presents. AIPLA's members include attorneys in private and corporate practice and in government service who secure, license, enforce, and defend against enforcement of intellectual property rights. As part of its central mission, AIPLA is dedicated to encouraging the healthy development of rules governing patent rights. Accordingly, AIPLA has a vital interest in the issue presented by this case, which will have a far-reaching impact on how patent rights are shared, challenged, and enforced. The outcome is of critical concern to AIPLA because its members regularly counsel and represent parties involved with patent licensing and litigation.

Counsel of record for all parties consented to the filing of this brief pursuant to Supreme Court Rule 37.3(a).

SUMMARY OF ARGUMENT

The Federal Circuit correctly held that jurisdiction did not exist under the Declaratory Judgment Act, 28 U.S.C. § 2201, because the parties' dispute lacked sufficient immediacy and genuine adversity to satisfy the requirement of Article III. To affirm in this case, however, the Court need not rule that a licensee must necessarily breach the license before a declaratory judgment action can be maintained. The critical Article III elements of a live controversy, *i.e.*, a concrete and immediate dispute, may also exist if the licensor and licensee engage in a legitimate debate over the validity or scope of the licensed patent rights after the license is executed, due to, for example, an unforeseen change in circumstances, and the licensor makes clear that it will promptly sue if the licensee fails to make timely payments according to its interpretation of the license. In that circumstance, there would also be mutuality of recourse to resolve the dispute. The necessary threat never occurred in this case, precluding petitioner from satisfying a constitutionally sufficient jurisdictional test.

Another example illustrates that a breach of a license is not necessary to support jurisdiction. A patent and pending applications may be licensed on the basis of the licensee's understanding that the patent covers only a certain portion of its products. If one of the pending applications unexpectedly issues with broad claims that cover all of the licensee's products and that the licensee rightfully believes are invalid, the licensee should be able to protest the payment of additional royalties. If the patentee responds to the licensee by insisting that royalties be paid on all products and threatens suit if they are not, the licensee is at risk if it does not increase its payment corresponding to all of the products. This type of circumstance can provide an immediate threat justifying a declaratory judgment action even if the licensee continues to pay royalties at the greater amount.

Petitioner's proposed rule, by contrast, grants licensees an absolute right to challenge the validity of patents they have voluntarily licensed without placing themselves at risk, allowing licensees to retain the shield of a license to protect them from an infringement suit, while they use the sword of a declaratory judgment action to invalidate the very patents they agreed to license. Such a rule would violate basic constitutional principles that limit the Declaratory Judgment Act to controversies of sufficient immediacy between parties with genuinely adverse legal interests. *Md. Casualty Co.* v. *Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941). Petitioner's rule would extend patent licensees a unilateral option to attack the licensed patent when the licensor makes no threats and is barred by the license from a mutual action against the licensee. Allowing patent licensees to bring risk-free challenges to patent validity would increase litigation, encourage questionable licensing tactics, and disrupt the settled expectations of patent licensors.

In applying the constitutional requirements of immediacy and mutuality to declaratory judgment jurisdiction, the

Federal Circuit properly considered whether the plaintiff has a reasonable apprehension of being sued by the named defendant. This is not a bright-line test that always requires a breach of the patent license; instead, the analysis allows the "totality of the circumstances," in an appropriate case, to justify a finding of jurisdiction.

As the Federal Circuit correctly observed, permitting a declaratory judgment action to proceed in this case would create an imbalance that "distorts the equalizing principles that underlie the Declaratory Judgment Act." Pet. App. 7a. By contrast, all relevant constitutional and policy concerns are satisfied by requiring a live dispute, *e.g.*, a challenge to the patent communicated by the licensee to the licensor, coupled with the licensor's threat of suit if the licensee fails to abide by the license in a manner sought by the licensor.

ARGUMENT

I. THE CONSTITUTIONAL REQUIREMENTS OF IMMEDIACY AND GENUINE ADVERSITY CANNOT BE SATISFIED WITHOUT AN IMMEDIATE THREAT TO THE LICENSEE.

The Declaratory Judgment Act satisfies the Constitution's Article III limits on judicial power by creating jurisdiction only for cases involving an "actual controversy." *Aetna Life Ins. Co.* v. *Haworth*, 300 U.S. 227 (1937) (construing Declaratory Judgment Act of 1934). In *Maryland Casualty Co.*, 312 U.S., at 273, the Court explained that disputes in declaratory judgment actions must be immediate, which is demonstrated at least in part by the fact that the declaratory judgment defendant could have brought an affirmative claim:

> "Basically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of *sufficient immediacy* and reality to warrant the issuance of a declaratory judgment. It is

immaterial that frequently, in the declaratory judgment suit, the positions of the parties in the conventional suit are reversed; the inquiry is the same in either case." (citations omitted) (emphasis supplied).

The immediacy requirement is implemented in the lower courts, including the Federal Circuit, by the well-established "reasonable apprehension of suit" test that was applied in this case and has been relied upon since the 1960s. *See, e.g., Teva Pharms. USA, Inc.* v. *Pfizer, Inc.*, 395 F.3d 1324, 1335 (CA Fed.), cert. denied, 126 S.Ct. 473 (2005); *C.R. Bard, Inc.* v. *Schwartz*, 716 F.2d 874, 879 (CA Fed. 1983); *Societe de Conditionnement en Aluminium* v. *Hunter Engineering Co., Inc.*, 655 F.2d 938, 944-945 (CA9 1981); *Japan Gas Lighter Assn. v. Ronson Corp.*, 257 F.Supp. 219, 237 (NJ 1966) (generally credited with formulating test). The "reasonable apprehension of suit" inquiry asks whether the putative declaratory judgment plaintiff had a reasonable apprehension of an imminent suit. *Teva Pharms.*, 395 F.3d, at 1335. A substantial body of law has evolved based on this test, which is aimed directly at addressing the constitutional requirement of an "actual controversy." See, *e.g.*, *id.*, at 1335-1336.

Petitioner seeks a rule that would deem all disputes about licensed patents to be immediate, and thus justiciable, regardless of whether the licensor has taken any affirmative action to suggest a live threat to the licensee. The constitutional requirement of immediacy, however, mandates a focus on whether the licensee truly faces an immediate threat. Although a license is normally inconsistent with such a threat, subsequent developments could conceivably create a sufficient threat to permit an exercise of jurisdiction. By properly focusing on the threat to the licensee, the Federal Circuit's reasonable apprehension test is balanced and adaptable.

Because a license is often an agreement to resolve existing disputes over patent rights, it is reasonable to preclude a licensee from challenging the licensed patents until

the parties' subsequent interactions establish an immediate and concrete dispute. If, for example, an unforeseen change of circumstances reasonably causes the licensee to believe that it need not continue to pay royalties because the patent is invalid or does not cover the licensee's products, that party is not under a threat until it raises the issue with the licensor and is met with conduct or actions indicating that, if the licensee ceases paying the disputed royalties, it will face a prompt infringement or contract suit. In that event, the licensee is under a threat and an immediate and real dispute exists. The existence of the real dispute does not require confirmation by the licensee actually breaching the license.

This application of the immediacy requirement forces the parties to join issue before allowing the licensee to seek court intervention, thus promoting the extrajudicial resolution of disputes and deterring the premature filing of lawsuits. A licensor will not always be willing to litigate to defend the validity of its patent. Allowing a suit to proceed before a true dispute exists, as petitioner would have it, would give the licensee the ability to launch an unannounced attack on a licensed patent whenever and wherever it chooses.

A. The Record in This Case Evidences a Complete Lack of Immediacy.

This case evinces no "immediacy"—or "reasonable apprehension of suit," to use the standard formulation developed by the lower courts. Petitioner's voluntary decisions to enter into the license and to pay royalties on the license eliminated any risk that Genentech would—or could—enforce the patent against it. Because Genentech could not bring suit, and did not threaten to do so, there was no immediacy to petitioner's desire to litigate the validity of the Cabilly II patent.

Petitioner does not directly address the absence of immediacy. It does not explain, for example, how a suit brought after a delay of over a year from the date payment

was sent "under protest," J.A. 426, could arise from an immediate dispute, or how the period of immediacy could end—if ever. In sharp contrast, under the reasonable apprehension test consistently applied by the Federal Circuit, the threatening actions of the patentholder provide a concrete basis to measure when the dispute is sufficiently ripe. But if the declaratory judgment plaintiff need not have a reasonable apprehension of suit, as petitioner contends, Pet'r Brief 23-25, the putative immediacy of any validity dispute would have no boundaries and could exist for the remaining life of the licensed patent. Such an unripe and one-way "controversy" cannot meet the constitutional standard of an immediate and real dispute.

B. The Court's Precedent Does Not Support a Conclusion of Immediacy on These Facts.

None of the decisions invoked by petitioner establishes that this case satisfies the constitutional immediacy requirement. For example, in *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 660 (1969), the patentee had sued the licensee for failure to pay royalties and only then did the licensee counter with its invalidity defense. Thus, the dispute was not only immediate, it was already underway when the invalidity declaratory judgment counterclaim was introduced. Put simply, the licensor's action against the licensee unmistakably created the required immediacy.

Petitioner also relies heavily upon *Altvater* v. *Freeman*, 319 U.S. 359 (1943). But in *Altvater*, like *Lear*, the party seeking to bring a declaratory judgment counterclaim of patent invalidity had been sued first. Thus, an action had been already initiated against the party bringing the declaratory judgment claim, obviously engendering an immediate and ripe dispute. Indeed, in *Altvater*, immediacy was established by the fact that the invalidity counterclaim accompanied an ultimately successful counterclaim, which confirmed that the parties' license had terminated. 319 U.S.,

at 362 ("[T]he license agreement terminated with the surrender of the original patent in 1936."). Thus, in contrast to this case, the dispute over the patents was ripe because there was *no* license at all precluding an infringement claim, and by bringing suit the patentee had made clear that it sought to enforce its patents.

The fundamental distinction between *Altvater* and this case is that here a valid license unquestionably prevents an infringement suit, whereas in *Altvater* the license no longer existed.[2] Further, the injunction pursuant to which royalties were being paid was being eliminated because it was unquestionably based on a patent that no longer existed, leading this Court to conclude that "the required payment of royalties under that decree does not establish the absence of a controversy." *Id.*, at 365 n.5.

The contract cases cited by petitioner are no more persuasive. Although one of the purposes of the Declaratory Judgment Act is to resolve concrete and immediate disputes over contract rights, that does not make all contract-related issues immediate and thus justiciable. For example, in *Highsmith* v. *Chrysler Credit Corp.*, 18 F.3d 434, 437 (CA7 1994), the Seventh Circuit found a dispute regarding a contract termination clause insufficiently "imminent" to support a declaratory judgment claim when the party attempting to bring the declaratory judgment claim had not terminated the contract or threatened to do so.[3]

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[2] Petitioner's brief wrongly assumes that the license in *Altvater* remained viable, and thus its analysis misses this critical distinction.

[3] The United States also relies upon decisions holding that a party may challenge a statute before it is enforced if there is a genuine risk of enforcement. Brief for the U.S. 9 (citing *Steffel* v. *Thompson*, 415 U.S. 452, 459 (1974)). That line of cases makes clear that the risk of enforcement must be such that the complaining party seeking to bring the declaratory judgment action is "immediately in danger" of facing enforcement. *City of Los Angeles* v. *Lyons*, 461 U.S. 95, 102 (1983). It

In sum, this case lacks the constitutionally required immediacy. Because petitioner paid all royalties possibly due under the license and Genentech never threatened to bring suit, there was no immediate dispute.

II. THE CONSTITUTIONAL REQUIREMENT OF IMMEDIACY CANNOT BE MET WHEN THE DISPUTE LACKS MUTUALITY.

In *Aetna,* the Court ruled that the Declaratory Judgment Act was constitutional because the declaratory judgment claim was simply the mirror image of the affirmative and unquestionably justiciable claim that the declaratory judgment defendant had threatened and could have brought. *Aetna*, 300 U.S., at 244 ("[T]he character of the controversy and of the issue to be determined is essentially the same whether it is presented by the insured or the insurer."). The bilateral nature of the dispute made it immediate and concrete.

The characteristic of mutuality is ensured by requiring the parties to actually engage concerning their dispute—creating an immediate threat—before the licensee can file a declaratory judgment action. For example, if the licensee were to threaten to challenge the patent, the licensor would be in a position to file a declaratory judgment action to confirm the licensee's obligation to pay under the license in a venue of its choosing. Thus, each side should have an equal opportunity to seek relief.

Such mutuality is central to the Declaratory Judgment Act, which was designed to ensure that both sides to a dispute have an opportunity to seek relief from the court system.

> "The Declaratory Judgment Act was designed to relieve potential defendants from the Damoclean threat of impending litigation which a harassing adversary might brandish, while initiating suit at his leisure—or never.

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cannot be said on this record that there was an immediate danger that Genentech would file suit.

The Act permits parties so situated to forestall the accrual of potential damages by suing for a declaratory judgment, once the adverse positions have crystallized and the conflict of interests is real and immediate." *Japan Gas Lighter*, 257 F.Supp., at 237 (citing *Md. Casualty Co.*, 312 U.S., at 273).

III. In the Absence of a Live Threat of Liability, a Licensee's Challenge to the Patent Cannot Meet the Constitutional Requirement of Adversity.

An additional requirement to meet the constitutional standard of justiciability is genuine adversity of the parties' legal interests. *Md. Casualty Co.*, 312 U.S., at 273. In a patent licensing situation, however, there is no reliable basis for assuming that genuine adversity exists, and there are dangers in any bright-line rule that might rely on the mere appearance of adversity.

In *Lear*, the Court recognized that a licensee and licensor often share a common interest in the strength of the licensed patent rights. *Lear*, 395 U.S., at 669. *Lear* described the typical interest a licensee has in a license, noting that the licensed patent can "deter others from attempting to compete with the licensee." *Ibid.* If the license is exclusive, it is obvious that the licensee benefits if the patent is effective. However, the Court explained that a licensee has an interest in the strength of the patent even if the license is non-exclusive: "Even in the case of nonexclusive licenses, however, competition is limited to the extent that the royalty charged by the patentee serves as a barrier to entry." *Id.*, at 669 n.16; see also Dreyfuss, Dethroning *Lear*: Licensee Estoppel and the Incentive to Innovate, 72 Va. L. Rev. 677, 703-706 (1986) ("Indeed, so long as the patentee does not extract all the extra profit the licensee can charge, a licensee will almost always have as strong an interest as a patent

challenge and will therefore not function in the public interest.").

In light of these interests, the licensee's required royalty payments may present only the appearance of adversity to the licensor, rather than the genuine adversity mandated by Article III. This adversity question is not answered by either *Lear* or *Altvater* because the declaratory judgment claimants were already involved in hotly contested litigation. Moreover, in *Lear,* the licensee had repudiated the licensing agreement and was being sued for nonpayment under the license, and in *Altvater,* the license was terminated by virtue of reissue of the subject patents.

The Court should not adopt petitioner's ill-conceived jurisdictional rule and open the door to friendly lawsuits between licensees and licensors that are simply designed to strengthen the patent rights they share. Such friendly litigation is the antithesis of a true case or controversy. A declaratory judgment "challenge" that *reaffirms* the validity of a valuable patent will quite often be in the interest of a licensee. Courts would have no reliable way of identifying the true motives of licensees when they file a declaratory judgment action, especially because those motives may be mixed or shifting.

The mere risk of this kind of manipulation of the courts is enough to cast doubt on a rule that permits risk-free validity challenges. On the other hand, once the licensee has been threatened by the licensor, true adversity is assured and the integrity of the adjudication is protected.

IV. Allowing Risk-Free Challenges to Patents by Licensees Creates the Wrong Incentives.

Licenses are the primary way that patent rights are shared. Promoting consensual licensing activity is generally beneficial and is one way to avoid wasteful disputes and litigation. The rule proposed by petitioner destabilizes licensing activity and promotes litigation and disputes.

A. Risk-Free Challenges Undermine Trust and Promote Increased Litigation.

Trust is important to healthy negotiations of any kind. Allowing licensees to attack freely the validity of licensed patents on a risk-free basis will undermine trust and feed suspicion. Most obviously, licensees will have an incentive to challenge licensed patents in court far more often. Typically, the only cost to the licensee of such an approach will be attorneys' fees with a business upside of: (1) strengthening the licensed patent if it withstands a validity challenge; (2) avoiding royalties entirely if the patent does not withstand a validity challenge, or; (3) perhaps, most commonly, reducing royalties owed due to a settlement of the challenge to the patent.

Petitioner's rule would not only promise more litigation from licensees, but it would also inspire patent owners to litigate more often. Rather than face a series of negotiations, suits, and renegotiations with its licensees, licensors would more likely opt for the finality of a conclusive judgment that protects from attacks on the validity of their patents. A patent owner entering into a license before litigating the validity of its patent would effectively disarm itself by foregoing the right to pursue an infringement claim while remaining exposed to suit by the licensee. Consensual licensing would be less desirable than it is now. Licensors would also likely increase the price of licenses to compensate for the risk of repeated renegotiations, with the higher costs to licensees being passed along to the public. See Goodman, Patent Licensee Standing and the Declaratory Judgment Act, 83 Colum. L. Rev. 186, 211 (1983) (noting that passing along higher license costs "diminish[es] the benefits the public currently receives from the patent system").

B. Risk-Free Challenges Encourage Inefficient and Questionable Licensing Tactics.

Petitioner does not address the undesirable incentives that would flow from the rule it promotes. The United States, on the other hand, concedes that licensors would be placed in a difficult position, see Brief for the U.S. 28, and its response on that key point only heightens concern about petitioner's rule.

Specifically, the United States argues that licensors can ameliorate the effects of petitioner's rule through a host of licensing tactics. The United States posits that while the law bars licensors from having licensees contract away their right to challenge the validity of a patent, licensors can include provisions that make the decision to challenge a licensed patent painful. *Ibid.*

For example, the United States suggests that "a licensor may be able to make the filing of a declaratory judgment action a basis for terminating the license, changing the royalty rate to a specified higher rate, or otherwise adjusting the pre-challenge terms." *Ibid.* The United States thus provides licensors with a menu of terms they can include in licenses to deter, and even punish, declaratory judgment invalidity actions. Yet, the United States concedes that the tactics it proposes would be legally questionable:

> "While the enforceability of such provisions is an open question in light of the strong public policy favoring patent challenges as reflected in *Pope* and *Lear*, those decisions do not necessarily entitle a licensee both to challenge the licensed patent and to retain all the benefits of his license agreement, if the agreement expressly provides otherwise." *Ibid.* (citation omitted).

Petitioner's rule would set off a new round of disputes about what licensors can do to counteract the licensees' power to

attack the validity of patents in what would otherwise be a risk-free way.

The United States also suggests that licensors could demand lump-sum up-front royalties in lieu of royalties paid as traditional running royalties. *Id.*, at 29. The common running royalty requires the licensee to pay royalties on an ongoing basis as a percentage of the sales price of its products. The United States reasons that licensees that pay for patent rights upfront and in full, rather than by owing running royalties, will be discouraged from challenging the licensed patent through declaratory judgment actions. *Ibid.* ("Patentees concerned about potential litigation could, for example, require prospective licensees to purchase a fully paid up license.").

Although the United States is correct that the petitioner's rule would encourage lump-sum up-front royalties, its proposal of fully paid-up payments distorts the common commercial desire to use the often favored running-royalty approach. AIPLA, whose members frequently engage in negotiating patent licenses, can attest to the fact that licensing parties more frequently prefer running royalties. Under that royalty model, the payments for the use of technology correspond to the extent of use of the technology over time. Declaratory judgment jurisdictional prerequisites should not disrupt the market's structuring of economic relationships in this way.

In addition, the lump-sum payment approach would undermine the very policy that the United States asks the Court to endorse. Specifically, the United States urges the Court to motivate licensees to invalidate bad patents even at the cost of lowering the bar as to what is justiciable as an immediate and concrete dispute. However, licensees have no incentive to challenge licensed patents when they have already paid for them fully—even if they learn later that they

are in fact invalid. To the contrary, such licensees have every incentive to see that their paid-for rights are preserved.

If the petitioner's rule were accepted, licensors may attempt to rebalance their negotiating power by including the questionable licensing terms identified by the United States—and presumably others. A new period of uncertainty in which the enforceability of these different terms is tested would be costly. Moreover, these terms are designed to discourage the very validity challenges that the Court is being asked to endorse. The uncertainty and brinksmanship in licensing practice that would accompany petitioner's rule are undesirable and should be avoided.

Meanwhile, many avenues permit parties to challenge the validity of a patent without implicating the problems that would accompany petitioner's rule. For example, even if a party made a business decision to license and pay royalties under a patent of questionable validity, that party may still indirectly challenge the patent's validity by requesting that the Patent Office reexamine the patent.[4] See Fisher, The Licensee's Choice: Mechanics of Successfully Challenging a Patent Under License, 6 Tex. Intell. Prop. L.J. 1, 45 (1997) ("The existence of a license agreement does not affect the licensee's right to file for reexamination.").

Petitioner's rule threatens to usher in a new and undesirable era in patent licensing which would disrupt not only future licensing activities, but also the expectations of existing licensors. Based on settled law over the last two decades, licensing parties would not have expected that licensees could file risk-free challenges to the patents they license. Petitioner's rule would likely cause a surge in declaratory judgment claims and rounds of license

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[4] Indeed, Petitioner has taken advantage of that very opportunity in this case. The Patent Office granted the request in July 2005, and the reexamination proceeding is still pending.

renegotiations. On the other hand, if the Court upholds the Federal Circuit's requirement for a reasonable apprehension of suit, the Court would preserve the fair balance currently existing among parties to patent licensing agreements.

CONCLUSION

The Court should affirm the decision of the Federal Circuit.

Respectfully submitted,

MELVIN C. GARNER
President
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
2001 Jefferson Davis Hwy.
Suite 203
Arlington, VA 22202
(703) 415-0780

EDWARD R. REINES
Counsel of Record
WEIL, GOTSHAL & MANGES LLP
201 Redwood Shores Pkwy.
Redwood Shores, CA 94065
(650) 802-3000

AMBER H. ROVNER
WEIL, GOTSHAL & MANGES LLP
8911 Capital of Texas Hwy.
Suite 1350
Austin, TX 78759
(512) 349-1930

Counsel for American Intellectual Property Law Association

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